

**CENTERVILLE  
MUNICIPAL WATERWORKS**

Independent Auditors' Reports  
Basic Financial Statement and Supplemental Information  
Schedule of Findings

June 30, 2008

# CENTERVILLE MUNICIPAL WATERWORKS

## Contents

	<u>Page</u>
Introductory Information:	
Waterworks' Officials .....	1
Independent Auditors' Report .....	2-3
Management's Discussion and Analysis .....	4-7
Basic Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets .....	8
Notes to Financial Statement .....	9-14
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) .....	15
Notes to Required Supplementary Information – Budgetary Reporting .....	16
Other Supplementary Information:	
Schedule of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets – by Category .....	17
Schedule of Indebtedness .....	18
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	19-20
Schedule of Findings .....	21-23
Staff .....	24

# CENTERVILLE MUNICIPAL WATERWORKS

## Waterworks' Officials June 30, 2008

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Greg Gordon	Trustee	July, 2010
CJ Hash	Trustee	February, 2012
Jack Williams	Trustee	September, 2010
Nancy Bennett	Trustee	May, 2012
Linda Miller	Trustee	August, 2009
 Bill Ursta	 General Manager	
Kay Guffey	Office Supervisor	Indefinite
Deb Cossolotto	Clerk	Indefinite

## Independent Auditors' Report

To the Board of Waterworks Trustees  
Centerville Municipal Waterworks  
Centerville, Iowa

We have audited the accompanying financial statement of the Centerville Municipal Waterworks, Centerville, Iowa, for the year ended June 30, 2008. This financial statement is the responsibility of the Centerville Municipal Waterworks' officials. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than the U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Centerville Municipal Waterworks is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Centerville that is attributable to the transactions of the Waterworks.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the results of the cash transactions of the Centerville Municipal Waterworks, for the year ended June 30, 2008, and its indebtedness at June 30, 2008 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2008 on our consideration of the Centerville Municipal Waterworks' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 7 is not a required part of the financial statement, but is supplementary information required by the Governmental Accounting Standards Board. We have certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the aforementioned financial statement taken as a whole. Other supplementary information included in pages 17 and 18 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in our audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statement taken as a whole.

*TD&T Financial Group, P.C.*

Centerville, Iowa  
November 21, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Centerville Municipal Waterworks provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities of the Centerville Municipal Waterworks is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the Waterworks' financial statement, which follows.

### **2008 FINANCIAL HIGHLIGHTS**

The highlights for the fiscal year July 1, 2007 to June 30, 2008 are as follows:

The Water Department will have completed 33 blocks of new water main construction by the spring of 2009. The total cost of this project will be \$900,000. Half of the project will be paid by grant money and the other half will be money borrowed through the State Revolving Fund at 3% interest.

At the end of the above mentioned project this will bring the total of new water mains to 120 blocks in the last 12 years. Some of the mains replaced were installed in 1920.

Our total cost of the main replacement for the 120 blocks is \$3,200,000. Only \$450,000 was borrowed for these projects. The other money came from grants, forgivable loans, and savings.

The Water Department must maintain 30 miles of mains in the distribution system and the two water towers on 750,000/500,000 gallons of water for storage.

We also handle all of the billing, collection, customer inquiries, work orders, and reading of 2700 meters each month.

The Water Department does not see any increase in rates for the next year.

### **USING THIS ANNUAL REPORT**

The Centerville Municipal Waterworks has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. Under the Centerville Municipal Waterworks' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Waterworks' cash basis of accounting.

This discussion and analysis is intended to serve as an introduction to the Centerville Municipal Waterworks' financial statement. The annual report consists of a financial statement and other information, as follows:

- Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Waterworks' financial activities.
- The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Waterworks' operating receipts and disbursements, non-operating receipts and disbursements and whether the Waterworks' financial position has improved or deteriorated as a result of the year's activities.
- The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.
- The Supplementary Information provides detailed information on the Waterworks' reserved funds, and indebtedness at June 30, 2008.

## **FINANCIAL ANALYSIS OF THE WATERWORKS**

### *Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets*

The purpose of the statement is to present the receipts received by the Centerville Municipal Waterworks and the disbursements paid by the Waterworks, both operating and non-operating. The statement also presents a fiscal snapshot of the Waterworks' cash balances at year end. Over time, readers of the financial statement are able to determine the Centerville Municipal Waterworks' financial position by analyzing the increase and decrease in cash basis net assets.

Operating receipts are those receipts received for fees charged based on water usage, and service charges to consumers of water in the Centerville community. Operating disbursements are disbursements paid for the operation and administration of the water plant and related water and sewer lines in Centerville. Non-operating receipts and disbursements are for interest on investments, debt proceeds, debt issue costs and changes in customers' deposits.

A summary of cash receipts, disbursements and changes in cash balances for the years ended June 30, 2008 and 2007 are shown on the following page.

The Waterworks' net assets are available for the use in routine operations for the plant, distribution and administrative areas of the Waterworks and for the capital improvements to the plant and distribution areas. State and federal laws and regulations require the Centerville Municipal Waterworks to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution.

Changes in Cash Basis Net Assets		
	Year ended June 30,	
	2008	2007
Operating receipts:		
Charges for service	\$ 1,069,718	1,022,345
Miscellaneous	88,818	246,695
Total operating receipts	<u>1,158,536</u>	<u>1,269,040</u>
Operating disbursements:		
Business type activities	956,684	1,282,491
Total operating disbursements	<u>956,684</u>	<u>1,282,491</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>201,852</u>	<u>(13,451)</u>
Non-operating receipts (disbursements):		
Use of money and property	26,376	23,821
Proceeds from sale of property	-	-
Net change in sewer fees collected	-	(367)
Water revenue bond repayments	(110,000)	(110,000)
Debt service interest expense	(15,668)	(18,375)
Net change in customers' deposits	4,133	(4,978)
Total non-operating receipts (disbursements)	<u>(95,159)</u>	<u>(109,899)</u>
Net change in cash basis net assets	106,693	(123,350)
Cash basis net assets beginning of year	<u>490,281</u>	<u>613,631</u>
Cash basis net assets end of year	<u>\$ 596,974</u>	<u>490,281</u>

### LONG-TERM DEBT

At June 30, 2008, the Centerville Municipal Waterworks had \$613,663 in bonds and other long-term debt outstanding, compared to \$739,515 in 2007, as shown below.

Outstanding Debt at Year End		
	June 30	
	2008	2007
Water Revenue Refinancing Bonds	\$ 365,000	475,000
Rathbun Regional Water Association	217,000	217,000
U.S. Bank	31,663	47,515
Total	<u>\$ 613,663</u>	<u>739,515</u>

The overall decrease in the total debt balance was due to regular scheduled payments.



## **ECONOMIC FACTORS AND FUTURE BUDGET IMPLICATIONS**

We started a new water main project in 2008 and will finish the project in 2009. This is a 33 block replacement of old mains. The total cost is \$900,000. We received \$450,000 from the CDBG and the rest from an SRF loan at 3%. This will be the last major water main project for the next 5 years.

In 2010 we will make the final payment on the water tower which will free up more money for savings and improvements. One improvement in the future will be the painting of the water towers inside and out.

The Water Department does not envision a rate increase in the next 2 years.

## **CONTACTING THE WATERWORKS' FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Waterworks' finances and to show the Waterworks' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Centerville Municipal Waterworks, PO Box 867, 112 N. 12<sup>th</sup> St., Centerville, IA 52544.

# CENTERVILLE MUNICIPAL WATERWORKS

## Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets For the Year Ended June 30, 2008

	Water Utility
Operating receipts:	
Charges for service	\$ 1,069,718
Miscellaneous	88,818
Total operating receipts	<u>1,158,536</u>
Operating disbursements:	
Business type activities	<u>956,684</u>
Total operating disbursements	<u>956,684</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>201,852</u>
Non-operating receipts (disbursements):	
Use of money and property	26,376
Sewer fees collected for the City	710,855
Sewer fees remitted to the City	(710,855)
Water revenue bond repayments	(110,000)
Debt service interest expense	(15,668)
Net change in customers' deposits	4,133
Total non-operating receipts (disbursements)	<u>(95,159)</u>
Net change in cash basis net assets	106,693
Cash basis net assets, beginning of year	<u>490,281</u>
Cash basis net assets, end of year	\$ <u><u>596,974</u></u>
Cash basis net assets:	
Restricted for:	
Customers' deposits	\$ 54,508
Reserved for debt service	<u>461,488</u>
Total restricted net assets	515,996
Unrestricted	<u>80,978</u>
Total cash basis net assets	\$ <u><u>596,974</u></u>

See accompanying notes to financial statement.

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Financial Statement June 30, 2008

### Note 1 – Summary of Significant Accounting Policies

#### A. Reporting Entity

The financial statement includes all funds of the Centerville Municipal Waterworks, a component unit of the City of Centerville. The Centerville Municipal Waterworks is legally separate from the City of Centerville, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statement to be misleading or incomplete. The Centerville Municipal Waterworks is governed by a five-member board appointed by the City Council. The Waterworks' operating budget is subject to approval of the City Council. Accordingly, the criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

#### B. Basis of Presentation

The accounts of the Waterworks are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its receipts, disbursements, and fund balances. The various funds are classified as Enterprise Funds in the financial statement. Enterprise Funds are utilized to finance and account for the acquisition, operation, and maintenance of governmental facilities and services supported by user charges.

#### C. Basis of Accounting

The Centerville Municipal Waterworks Fund maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present the financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

#### D. Net Assets

Funds set aside for bond principal and interest payments, capital projects, and customer water deposits are classified as restricted.

#### E. Investments

Investments are stated at cost, which approximates market.

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Financial Statement (Continued)

June 30, 2008

### Note 2 – Cash and Investments

The Waterworks' deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Commission; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2008, the Waterworks investments consist entirely of certificates of deposits.

Interest rate risk – The Waterworks' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Waterworks.

### Note 3 – Compensated Absences

Waterworks' employees accumulate earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. The General Manager may be paid upon termination, retirement or death for fifty percent of his earned and unused sick leave benefits. These accumulations are not recognized as expenditures by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation and payments payable to employees at June 30, 2008 are as follows:

<u>Type of Benefit</u>	<u>Amount at June 30, 2008</u>
Vacation	\$ <u>19,317</u>

The liability has been computed based on rates of pay as of June 30, 2008.

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Financial Statement (Continued) June 30, 2008

### Note 4 – Revenue Notes

Annual debt service requirements to maturity for revenue notes are as follows:

Year Ending <u>June 30,</u>	Revenue Notes	
	<u>Principal</u>	<u>Interest</u>
2009	115,000	12,075
2010	125,000	8,500
2011	<u>125,000</u>	<u>4,375</u>
Totals	\$ <u>365,000</u>	<u>24,950</u>

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$990,000 in water revenue notes issued in March 2003. Proceeds from the notes provided financing for the construction of water main extensions. The notes are payable solely from water customer net receipts and are payable through 2011. Annual principal and interest payments on the notes are expected to require less than 80 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$389,950. For the current year, principal and interest paid and total customer net receipts were \$125,365 and \$208,319, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- A. The notes are to be redeemed from the future earnings of the Water Utility Fund and the note holders hold a lien on the future earnings of the Water Utility Fund.
- B. Sufficient monthly cash transfers shall be made to the Water Utility Operation and Maintenance Fund to meet the current expenses of the month plus an amount equal to one-twelfth of the expenses payable on an annual basis.
- C. Sufficient monthly cash transfers shall be made to the Water Revenue Note and Interest Sinking Fund for the purpose of making the note principal and interest payments when due.

This account can only be used for the retirement of note principal and interest.

- D. A Debt Service Reserve Fund shall be maintained for the purpose of paying principal and interest on the notes when insufficient funds are available in the Sinking Fund. The balance in this restricted account is required to be \$99,000.
- E. Additional monthly transfers of \$500 shall be made to the Water Revenue Improvement Fund until the balance in the fund equals \$100,000. This account is restricted for the purpose of paying extraordinary maintenance expenses, repairs and capital improvements to the water treatment facility or for principal and interest on the notes when there are insufficient funds in the Sinking and Reserve Funds.

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Financial Statement (Continued) June 30, 2008

### Note 5 – Notes Payable

The Waterworks is indebted to U.S. Bank in the amount of \$31,663 as of June 30, 2008. The note is due in monthly installments of \$1,513 including interest at 5.63 percent per annum. The note is secured by equipment. The note matures in April 2010.

The amounts of the annual maturities for each of the five following years are:

<u>Year Ended June 30,</u>	<u>Amount</u>
2009	\$ 16,804
2010	14,859
2011	-
2012	-
2013	-

### Note 6 – Rathbun Regional Water Loan

As part of the water purchase contract described in Note 7, Rathbun Regional Water Association agreed to loan the Centerville Municipal Waterworks \$217,000. The loan will be forgivable provided that Centerville Municipal Waterworks meets the minimum water purchase quantities for the first 10 years of the water purchase contract.

### Note 7 – Water Purchase Contract

Centerville Municipal Waterworks agreed to a water purchase contract with Rathbun Regional Water Association in November of 2001. In the forty-year agreement, Centerville Municipal Waterworks agreed to purchase a minimum of three million gallons of water per month for the first five years. Following the initial five-year period, the Centerville Municipal Waterworks agreed to purchase a minimum of seven and one-half million gallons of water per month.

Based on the above agreement, the minimum water purchase payments for the next four years would be as follows:

<u>Year Ending June 30,</u>	<u>Minimum Water Purchase Payments</u>
2009	\$ 189,000
2010	189,000
2011	189,000
2012	189,000

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Financial Statement (Continued)

June 30, 2008

### Note 8 – Pension and Retirement Benefits

The Centerville Municipal Waterworks contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer, defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the Centerville Municipal Waterworks is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The Centerville Municipal Waterworks' contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$22,873, \$14,092, and \$17,762 respectively, equal to the required contribution for each year.

### Note 9 – Risk Management

The Centerville Municipal Waterworks is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 563 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2008 were \$10,204.

(continued)

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Financial Statement (Continued) June 30, 2008

### Note 9 – Risk Management (Continued)

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2008, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workmen's compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### Note 10 – Subsequent Events

Centerville Municipal Waterworks was approved by the Iowa Finance Authority for a State Revolving Fund loan totaling \$450,000.

Centerville Municipal Waterworks entered into a construction contract totaling \$743,990 for a water main improvement project.



# CENTERVILLE MUNICIPAL WATERWORKS

## Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) Year Ended June 30, 2008

	Actual	Less Funds Not Required to be Budgeted	Net
Receipts:			
Use of money and property	\$ 26,376	2,245	24,131
Charges for service	1,780,573	710,855	1,069,718
Miscellaneous	88,818	-	88,818
Total receipts	<u>1,895,767</u>	<u>713,100</u>	<u>1,182,667</u>
Disbursements:			
Business type activities	<u>1,789,074</u>	<u>706,722</u>	<u>1,082,352</u>
Excess (deficiency) of receipts over (under) disbursements	<u>106,693</u>	<u>6,378</u>	<u>100,315</u>
Other financing uses, net:			
Loan proceeds	-	-	-
Operating transfers in (out)	<u>-</u>	<u>(3,193)</u>	<u>3,193</u>
	<u>-</u>	<u>(3,193)</u>	<u>3,193</u>
Change in cash basis net assets	106,693	3,185	103,508
Balance, beginning of year	<u>490,281</u>	<u>51,323</u>	<u>438,958</u>
Balance, end of year	\$ <u><u>596,974</u></u>	<u><u>54,508</u></u>	<u><u>542,466</u></u>

See accompanying notes to the financial statements.

Budgeted Amounts		Variance
Original	Final	Favorable (Unfavorable)
6,000	6,000	18,131
1,010,900	1,010,900	58,818
83,700	83,700	5,118
<u>1,100,600</u>	<u>1,100,600</u>	<u>82,067</u>
<u>1,100,600</u>	<u>1,100,600</u>	<u>18,248</u>
<u>-</u>	<u>-</u>	<u>100,315</u>
-	-	
-	-	
<u>-</u>	<u>-</u>	
-	-	
<u>438,958</u>	<u>438,958</u>	
<u>438,958</u>	<u>438,958</u>	

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

The Centerville Municipal Waterworks prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year, there were no budget amendments.

During the year ended June 30, 2008, disbursements did not exceed the amount budgeted.

# CENTERVILLE MUNICIPAL WATERWORKS

## Schedule of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets - by Category As of and for the Year Ended June 30, 2008

	Water Utility	Water Revenue Bond Sinking
Receipts:		
Charges for services	\$ 1,069,718	-
Miscellaneous	88,818	-
Non-operating:		
Rent income	3,000	-
Interest on investments	3,467	2,083
Sewer fees collected for the City	710,855	-
Sewer fees remitted to the City	(710,855)	-
Customers' deposits	-	-
Total receipts	<u>1,165,003</u>	<u>2,083</u>
Disbursements:		
Business type activities	956,684	-
Debt service:		
Water revenue bond redemption	-	110,000
Interest payments	-	15,668
Customers' refunded deposits	-	-
Total disbursements	<u>956,684</u>	<u>125,668</u>
Excess (deficiency) of receipts over (under) disbursements	<u>208,319</u>	<u>(123,585)</u>
Other financing sources (uses):		
Operating transfers in (out):		
Customers' deposits	3,193	-
Water Reserve Improvement	5,226	-
Water Reserve Improvement	(55,000)	-
Water Revenue Reserve	8,985	-
Water Revenue Bond Sinking	-	-
Water Revenue Bond Sinking	(148,165)	148,165
Total other financing sources (uses)	<u>(185,761)</u>	<u>148,165</u>
Net change in cash basis net assets	22,558	24,580
Cash basis net assets, beginning of year	<u>58,420</u>	<u>39,120</u>
Cash basis net assets, end of year	<u>\$ 80,978</u>	<u>63,700</u>
Cash basis net assets:		
Restricted for:		
Customers' deposits	\$ -	-
Reserved for debt service	-	63,700
Unrestricted	<u>80,978</u>	<u>-</u>
Total cash basis net assets	<u>\$ 80,978</u>	<u>63,700</u>

See accompanying independent auditors' report.

Water Revenue Reserve	Water Reserve Improvement	Customer Deposits	Total
-	-	-	1,069,718
-	-	-	88,818
-	-	-	3,000
11,164	4,417	2,245	23,376
-	-	-	710,855
-	-	-	(710,855)
-	-	18,655	18,655
<u>11,164</u>	<u>4,417</u>	<u>20,900</u>	<u>1,203,567</u>
-	-	-	956,684
-	-	-	110,000
-	-	-	15,668
-	-	14,522	14,522
<u>-</u>	<u>-</u>	<u>14,522</u>	<u>1,096,874</u>
<u>11,164</u>	<u>4,417</u>	<u>6,378</u>	<u>106,693</u>
-	-	(3,193)	-
-	(5,226)	-	-
-	55,000	-	-
(8,985)	-	-	-
-	-	-	-
-	-	-	-
<u>(8,985)</u>	<u>49,774</u>	<u>(3,193)</u>	<u>-</u>
2,179	54,191	3,185	106,693
<u>189,807</u>	<u>151,611</u>	<u>51,323</u>	<u>490,281</u>
<u>191,986</u>	<u>205,802</u>	<u>54,508</u>	<u>596,974</u>
-	-	54,508	54,508
191,986	205,802	-	461,488
-	-	-	80,978
<u>191,986</u>	<u>205,802</u>	<u>54,508</u>	<u>596,974</u>

# CENTERVILLE MUNICIPAL WATERWORKS

## Schedule of Indebtedness For the Year Ended June 30, 2008

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Water Revenue Refinancing Bonds	March 1, 2003	2.00-3.50	\$ <u>990,000</u>
Rathbun Regional Water Association	November 1, 2001	none	\$ <u>217,000</u>
US Bank	March 30, 2007	5.63	\$ <u>50,000</u>

See accompanying independent auditors' report.

<u>Balance June 30, 2007</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance June 30, 2008</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>475,000</u>	<u>-</u>	<u>110,000</u>	<u>365,000</u>	<u>15,365</u>	<u>1,005</u>
<u>217,000</u>	<u>-</u>	<u>-</u>	<u>217,000</u>	<u>-</u>	<u>-</u>
<u>47,515</u>	<u>-</u>	<u>15,852</u>	<u>31,663</u>	<u>2,304</u>	<u>148</u>

Independent Auditors' Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Waterworks Trustees  
Centerville Municipal Waterworks  
Centerville, Iowa

We have audited the financial statement of the Centerville Municipal Waterworks, Centerville, Iowa, for the year ended June 30, 2008, and have issued our report thereon dated November 21, 2008. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Centerville Municipal Waterworks' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Waterworks' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Centerville Municipal Waterworks' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Waterworks' financial statements that is more than inconsequential will not be prevented or detected by the Waterworks' internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described in the Schedule of Findings are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Centerville Municipal Waterworks' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Centerville Municipal Waterworks' operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of Centerville Municipal Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Centerville Municipal Waterworks' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Centerville Municipal Waterworks' responses, we did not audit Centerville Municipal Waterworks' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the members and customers of the Centerville Municipal Waterworks and other parties to whom Centerville Municipal Waterworks may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Centerville Municipal Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*TDE&T Financial Group, P.C.*

Centerville, Iowa  
November 21, 2008

# CENTERVILLE MUNICIPAL WATERWORKS

## Schedule of Findings For the Year Ended June 30, 2008

### I. Summary of Independent Auditors' Results:

- A. The auditors' report expresses an unqualified opinion on the financial statement, which was prepared on the basis of cash receipts, and cash disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- B. Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statement. All were determined to be material weaknesses.
- C. The audit did not disclose any noncompliance that is material to the financial statement.
- D. The audit disclosed no audit findings that the auditor is required to report.

### II. Findings related to the financial statement:

#### Material Weaknesses:

- 1) Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible. Water utility billings, collections, deposits, posting to customer accounts and cash receipts journal, and reconciliation of billings to collections and delinquent accounts are all done by the same person. Also, bank accounts are not reconciled by an individual who does not sign checks, handle or record cash.

Recommendation – We realize that with a limited number of employees, segregation of duties is difficult. However, the Centerville Municipal Waterworks should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – We will work to maintain the best possible control with the personnel available.

Conclusion – Response accepted.

- 2) Financial Reporting – During the audit, we identified material amounts of fund transfers and expenses not reported correctly in the Waterworks' financial statements. Adjustments were subsequently made by the Waterworks to properly report these amounts in the financial statements.

Recommendation – The Waterworks should carefully review general ledger postings for revenues and expenses to ensure they are posted correctly and that transfers between funds equal.

Response – We will review general ledger postings and review fund transfers to make sure they equal.

Conclusion – Response accepted.

(continued)

# CENTERVILLE MUNICIPAL WATERWORKS

## Schedule of Findings (Continued) For the Year Ended June 30, 2008

### II. Findings related to the financial statement (continued):

#### Material Weaknesses (continued):

- 3) Preparation of Financial Statements in Accordance with Accounting Principles Generally Accepted in the United States of America – Management does not possess adequate knowledge and training in order to prepare financial statements, including required disclosures, in accordance with accounting principles generally accepted in the United States of America. Internal controls should be in place to provide reasonable assurance that the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Misstatement of financial statements and omissions of required disclosures could occur and not be detected.

Recommendation – We recommend that personnel in charge of accounting receive additional training in order to prepare the financial statements in accordance with accounting principles generally accepted in the United States of America.

Response – We will obtain training for bookkeepers so they may be sufficiently knowledgeable to prepare a financial statement in accordance with accounting principles generally accepted in the United States of America.

Conclusion – Response accepted.

(continued)

# CENTERVILLE MUNICIPAL WATERWORKS

## Schedule of Findings (Continued) For the Year Ended June 30, 2008

### III. Other findings related to required statutory reporting:

- 08-III-1 Questionable Disbursements – We noted no disbursements that we believe may constitute an unlawful disbursement from public funds as defined in the Attorney General's opinion dated April 25, 1979.
- 08-III-2 Travel Expense – No disbursements of Waterworks' money for travel expenses of spouses of Waterworks' officials or employees were noted.
- 08-III-3 Certified Budget – The budget certified by the City of Centerville includes amounts budgeted for the Centerville Municipal Waterworks. Disbursements during the year ended June 30, 2008 did not exceed the amount budgeted.
- 08-III-4 Business Transactions – There were no transactions between the Waterworks and Waterworks' officials or employees.
- 08-III-5 Bond Coverage – Surety bond coverage of the Waterworks' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 08-III-6 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Waterworks' investment policy were noted.
- 08-III-7 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 08-III-8 Revenue Notes – No instances of non-compliance with the revenue bonds and note resolutions were noted.

# CENTERVILLE MUNICIPAL WATERWORKS

## Staff

This audit was performed by:

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